LEOFF 1 Issues

Background

Among the suggested issues for the Select Committee on Pension Policy (SCPP) to hear in the 2004 interim were those dealing with the Law Enforcement Officers' and Fire Fighters' plan 1 (LEOFF 1). These issues range from funding and contribution rates, survivor benefits, contributions to medical accounts, disability board membership, and the 60% benefit cap. Recent legislative proposals have sought to address most of these issues. This report provides background information on the LEOFF 1 plan, and briefly discusses the fiscal and policy impact of each of these issues.

Committee Activity

Presentation:
October 19, 2004 - Full Committee

Recommendation to Legislature

See specific issue tabs.

Staff Contact

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LEOFF 1 Issues – Summary

(December 21, 2004)

Issue	Description	Fiscal Impact
Liability	Actuarial present value of fully projected benefits	$4,338 million
Surplus (Deficit) at 9/30/02*	Based on actuarial value of assets.	$757 million
	Based on market value of assets.	$(278) million
	Amount required to keep the plan in full funding based on current actuarial assumptions and benefits.	$278 million
Survivor Benefits[1]	HB 3173: Allow the spouse from a post-retirement marriage to receive fractional survivor benefits (actuarially adjusted) even with the presence of a qualified ex-spouse.	$0
Contributions to Medical Accounts[1]	HB 3174: Establish medical accounts using contribution rate savings of employers and members to help employers pay for catastrophic illnesses of members or beneficiaries.	$0 impact on LEOFF 1, $8 million impact on employers and members
Disability Board Membership	HB 3114 / SB 6355: Clarify the qualifications of the members eligible to vote and serve on disability boards – must be active or retired from an entity subject to the jurisdiction of the board. If no fire fighters or police officers are eligible to vote, remaining eligible LEOFF 1 members will elect a second board member.	$0
60% Benefit Cap	HB 2914: Remove the 60% benefit cap in LEOFF 1.	$19 million reduction in surplus
70% Benefit Cap	HB 2416: Raise the 60% benefit cap in LEOFF 1 to 70%.	$16 million reduction in surplus
End Contribution Holiday	Begin employer and member contributions before the plan emerges from fully funded status (7/1/05).	$13 million increase in surplus
Residual Surplus (Deficit)[2]	Amount of surplus (deficit) after enactment of legislative proposals.	$(284) million

** Future forecasts, which will recognize more recent market performance, may show different results.*
***1** Also may have an administrative impact on the Department.*
***2** Based on the removal of the 60% benefit cap and resumption of contributions.*

LEOFF 1 Issues

(October 18, 2004)

Issues

Among the suggested issues for the Select Committee on Pension Policy (SCPP) to hear in the 2004 interim were those dealing with the Law Enforcement Officers' and Fire Fighters' plan 1 (LEOFF 1). These issues range from funding and contribution rates, survivor benefits, contributions to medical accounts, disability board membership, and the 60% benefit cap. Recent legislative proposals have sought to address most of these issues. This report will provide background information on the LEOFF 1 plan, and briefly discuss the fiscal and policy impact of each of these issues.

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Members Impacted

The LEOFF 1 plan has, as of the most recent valuation, 991 active members and 8,054 retirees.

Current Situation

The LEOFF plan was created at the request of numerous municipalities and local governments in Washington whose public safety related retirement plans had become too costly. Throughout the post-war era, smaller municipalities attempted to keep up with the more generous large-city retirement plans. In doing so, they became less able to pay for the ever increasing benefits. The State agreed to establish a consolidated plan that would require retirement contributions from employees, employers, and the State. Among the stipulations agreed to in this plan consolidation was that no member's prior act benefits would be negatively impacted.

The LEOFF 1 plan was created on March 1, 1970 (Chapter 209 Laws of 1969), and closed on September 30, 1977 with the creation of LEOFF 2. Statutes governing the LEOFF 1 plan are found in Chapter 41.26 RCW. A comprehensive description of LEOFF 1 plan provisions can be found in Appendix A.

Retirement Benefit: LEOFF 1 is a defined benefit plan covering full-time fully compensated law enforcement officers and fire fighters. Eligibility for membership generally required meeting minimum medical, health, and age standards. It provides a retirement benefit equal to 2% of a member's final average salary, or FAS (the basic salary attached to the position or rank at retirement if held for at least 12 months) times their years of service, to a maximum of 30 years. Members are eligible to retire after 5 years of service and attainment of age 50.

Disability Benefit: A LEOFF 1 member who becomes disabled, as determined by their local disability board, is eligible to receive a benefit equal to 50% of FAS with an additional 5% of FAS for each dependent child to a maximum of 60% of FAS. LEOFF 1 members do not pay into the State Worker's Compensation program and thus are not eligible for those disability benefits.

Survivor Benefit: Survivor benefits for active members are equal to 50% of the member's FAS at time of death, or the amount the member would have received at age 50, or the amount the member was receiving if retired with a duty disability. This allowance may increase an additional 5% of FAS for each dependent child to a maximum of 60% of FAS.

Survivors may also receive a $150,000 payment if the member dies in service or from injuries sustained in the commission of duties.

The survivor benefit for inactive members, if the spouse is married to the member at least 1 year prior to retirement, is the same benefit the member received, including the allowance for children.

Post-retirement Benefits: Retired LEOFF 1 members are provided necessary medical services by their employer (this does not include spousal coverage).

Retired members may work for any non-LEOFF employer without a reduction of benefits.

LEOFF 1 retirement benefits are fully indexed to the annual changes in the Seattle CPI-W.

Federal Benefits: There are also benefits provided by sources outside the LEOFF 1 plan. The U.S. Department of Justice, Bureau of Justice Assistance provides disability benefits, death benefits, and educational assistance benefits through the Public Safety Officers Benefits Program.

History

Five bills went before the 2004 legislature dealing with LEOFF 1 pension issues. Two of the bills were related to the 60% cap on FAS used in determining a member's maximum retirement benefit. HB 2416 proposed raising the limit to 70% of FAS, and HB 2914 proposed eliminating the cap entirely; both bills received a hearing but neither moved from committee. HB

3114 / SB 6355 dealt with disability boards; they did not pass out of either fiscal committee. The remaining bills dealt with survivor benefits (HB 3173), and establishing medical accounts to help employers pay for catastrophic illnesses (HB 3174); neither received a hearing. These legislative proposals will be discussed in the "Issues" section of this report.

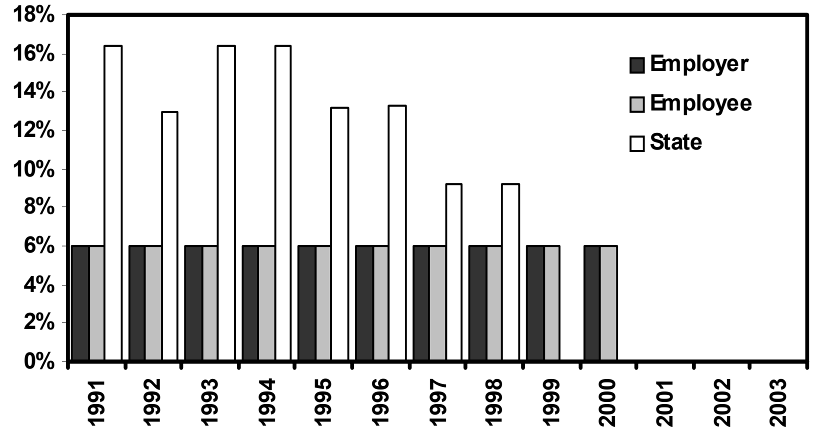
The following is a list of the most recent LEOFF 1 legislation sponsored by the former Joint Committee on Pension Policy (JCPP) to pass into law.

Year	Session Law	Subject
2003	Ch 030 L 03	Disability boards
2003	Ch 032 L 03	Fallen Hero survivor benefits
2002	Ch 158 L 02	Survivor benefits
2000	Ch 186 L 00	Survivor option flexibility
1999	Ch 134 L 99	Death benefits
1998	Ch 157 L 98	$150,000 death benefit
1997	Ch 122 L 97	Portability

Funding Sources

At this time, no contributions are being made to the LEOFF 1 retirement plan. State contributions were suspended in July, 1999, and member and employer contributions were suspended in May, 2000. The plan had actually reached fully funded status in 1997. When contributions were being made to LEOFF 1, statutes required members and employers both to contribute 6% of salary. The State then contributed the required costs of the system in excess of those met by the members and employers. In many years the State contribution was well above the member and employer contributions (see Figure 1).

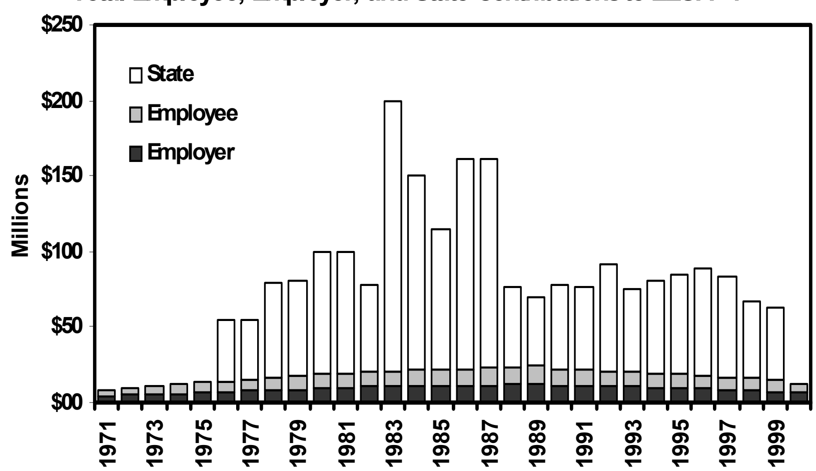
Figure 1
Employer, Employee, and State Contribution Rates to LEOFF 1



Source: Office of the State Actuary

The First Actuarial Valuation of the Washington Law Enforcement Officers' and Fire Fighters' Retirement System, submitted to the Public Employees' Retirement System and forwarded to the Governor in October of 1970, recommended that the State contribute 33.16% of pay. In the first 5 years of its existence, however, the State made no contributions to LEOFF 1 (see Figure 2). But beginning in 1976, and continuing through 1999, annual State contributions were significantly above the employer and employee contributions, averaging just over 40% of pay (see Appendix B).

Figure 2
Total Employee, Employer, and State Contributions to LEOFF 1



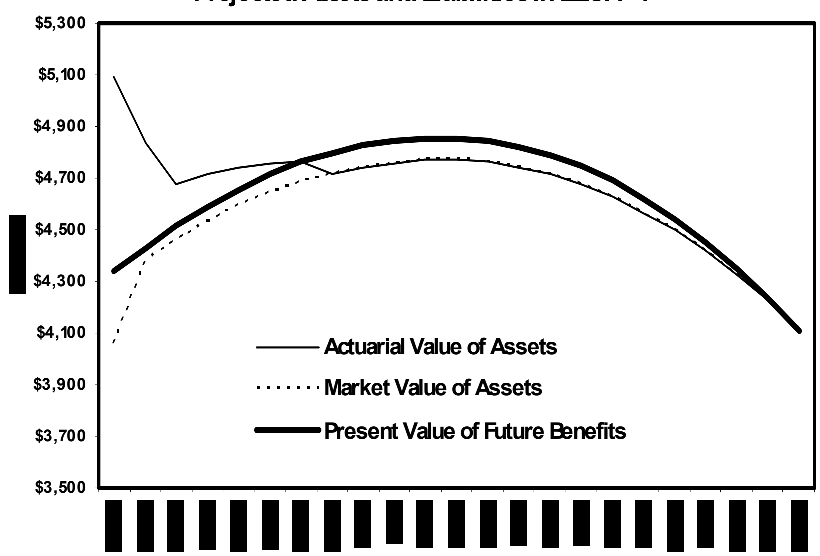
Source: Consolodated Annual Financial Reports

Funding Ratio

As of the 2003 valuation, LEOFF 1 had a funded ratio of 112%, meaning there were $1.12 in actuarial assets for every $1.00 of liabilities. The funding ratio had changed very little between 1987 and 1994, hovering in the mid-60% range. Beginning in 1995, thanks to the outsized market returns, continued contributions, and low inflation, that funded ratio began increasing. By 2000, in conjunction with the new valuation interest rate which increased from 7.5% to 8.0%, the LEOFF 1 funding ratio peaked at 136%.

Based on current projections, the plan is expected to emerge from its surplus position in the 2009-2011 biennium (see Figure 3). Poor market performance on the plan assets in 2000-2002, and no contributions over the past several years are the primary cause. Still, the assets and liabilities of the plan are tracking very closely; even when the assets dip below the liabilities, the funded ratio is not expected to fall below 99%. Future forecasts, which will recognize more recent market performance, may show different results.

Figure 3
Projected Assets and Liabilities in LEOFF 1



When the plan does exhaust its surplus, contribution rates from employers and employees will resume, albeit on the relatively small payroll that remains. Then, depending on the funded status of the plan, State contributions may resume as well.

ISSUES

The following sections will include brief background discussions, policy implications, and fiscal impact of the various legislative proposals forwarded to the legislature in the last session. A final issue deals with the contribution rate holiday; it has not been addressed in any previous legislative proposal.

Survivor Benefits

Survivor benefits provide ongoing retirement income to a designated beneficiary after the death of the original member. For the survivor of a LEOFF 1 member who died prior to retirement, the benefit is 50% of the member's FAS, with 5% per child allotments to a maximum of 60% of FAS. These benefits are provided to eligible survivors as part of the plan design, i.e. at no additional cost to the member.

If a LEOFF 1 member dies in service or from injuries sustained in the commission of duties, survivors also receive a $150,000 lump-sum from the plan.

Spouses of active LEOFF 1 members are eligible for a survivor benefit regardless of how long they had been married. Spouses of terminated vested members who have at least 20 years of service credit, spouses of duty disability retirees, and spouses of service retirees must have been married to the member at least one year before the member's separation from service to be eligible for an unreduced survivor benefit.

Ex-Spouse Survivor Benefits: Ex-spouses of LEOFF 1 members may also qualify for survivor benefits if they divorced prior to the member's separation from service and entered into a court order or court approved property settlement after July 1, 2003. In such an instance, the ex-spouse may be awarded a portion of the member's benefit and survivor benefit if that benefit is so designated in the order or settlement

Earlier provisions in LEOFF 1 required ex-spouses to meet stringent criteria to be eligible for survivor benefits. Prior to 1980, ex-spouses could only qualify if they had been married to the member for 30 years, 20 of which were before the member retired. More recently, an ex-spouse could qualify if the member had 30 years of service and they had been married at least 25 years. The benefit for a spouse who divorced and entered into property settlement prior to July 1, 2003 will cease upon the death of the member. Even a spouse who divorced after 40 years of marriage would not qualify for continuing benefits if the member had less than 30 years of service.

Post Retirement Marriage Survivor Benefits : In an option that was established under 2002 legislation, and has never been offered before (even in prior act plans that were closed with the implementation of LEOFF 1) members who marry after retirement may designate their new spouse as a beneficiary. Members may do so during a one-year window that begins one year after the date of marriage. To make such a designation, there may not be a qualified ex-spouse receiving a portion of the member's retirement benefit under a court approved property settlement. To receive this benefit the member's allowance is actuarially reduced. A member can chose among several survivor options in which a specific percent of their adjusted allowance is passed on to their survivor. Figure 4 illustrates the joint and survivor options for a current service retiree who is 5 years older than their spouse. Option factors are found in Appendix C.

Figure 4
LEOFF 1 Survivor Allowance Options:
Member 5 Years Older than Spouse

Option	Factor	Joint Benefit	Survivor Benefit
Single Life	1.000	$3,642*	$0
Joint & 50%	0.921	$3,354	$1,677
Joint & 66⅔%	0.898	$3,271	$2,181
Joint & 100%	0.854	$3,110	$3,110

** $3,642 is the average service retiree benefit per month for new service retirees as of the 2003 valuation*

Recent Legislation: HB 3173 was introduced in the 2004 legislative session. It would have amended the post retirement spousal survivor benefit so that a spouse from a post-retirement marriage could receive a survivor benefit even though there may be a qualified ex-spouse receiving a portion of the member's retirement benefit under a court approved property settlement. The bill did not receive a hearing.

Legislative Interest: While there has been no recent legislation, there is interest in acting on the ex-spouse survivor benefits issue (see Morton's letter as attachment). As noted, benefits to many ex-spouses may cease after the member's death. This has the effect of removing a significant income source to those who may have no alternatives.

Policy Considerations: Implicit retirement policies outlined by the former Joint Committee on Pension Policy state that "Pension benefits should meet the needs of employees, retirees and employers within available resources," and " Retirees should have more flexibility in determining the form and timing of their benefit." The provisions allowing ex-spouses and spouses from post-retirement marriages to receive survivor benefits are based on these policies. Any expansion of eligibility for multiple survivors to receive fractional benefits via an actuarial reduction to the member's benefit would not be in conflict with these policies.

Fiscal Impact: As the benefits are actuarially reduced, there would be no fiscal impact (Fiscal notes are found in Appendix D), but the addition of new beneficiaries would have an administrative impact on the Department.

Contributions to Medical Accounts

When the LEOFF 1 plan reach fully-funded status, contribution rates were suspended for employees, employers, and the State. This represented a savings for employers and the State, and a pay increase for members. A supplemental retirement benefit funded using all or a portion of monies saved from the suspension of contribution rates would not be unprecedented, but some benefit proposals may have some unresolved tax implications.

Recent Legislation: HB 3174 was introduced in the 2004 legislative session. Its aim was to establish medical accounts using contribution savings of employers and members to help employers pay for catastrophic illnesses of members or beneficiaries. The bill did not receive a hearing.

Policy Considerations: Retiree medical accounts are governed by IRS code that requires specific funding levels of the underlying pension plan (120%-125%) prior to creation, and limits the amount of contributions to such accounts. It is uncertain that such contributions required under HB 3174 would be covered under existing IRS code; tax counsel would need to be consulted. Bill language calls for the money in these accounts to be used for the "catastrophic medical expenses of employers for the benefit of members or beneficiaries..." Currently, necessary medical services to LEOFF 1 retirees are provided by each member's employer. This bill would provide catastrophic medical expense coverage to beneficiaries that has not previously been available.

Fiscal Impact: There is no fiscal impact on the retirement plan, but if instituted in 2005, there would be an $8 million long-term impact on both members and employers and an administrative impact on the Department.

Disability Board Membership

Decisions on eligibility for LEOFF 1 disability and medical benefits are made by city and county LEOFF 1 disability boards. Disability benefits may be granted for both duty and non-duty disabilities.

Each city with a population of 20,000 or more has a LEOFF 1 disability board. Each county also has a disability board, and these county boards have jurisdiction over LEOFF 1 members not covered by a city disability board. Under current law, one of the members of a county board must be a member of the legislative body of a city or town in the county that does not have its own board. This member must be chosen by a majority of the mayors of the affected cities or towns.

Fire fighter and law enforcement officers serving on the disability boards are elected by LEOFF 1 members. All members of LEOFF Plan 1 and 2 may serve on disability boards, but only LEOFF 1 members may vote to elect the LEOFF members.

Other disability board members are not required to be LEOFF 1 members.

There are currently fewer than 1,000 active members, and in a few years there will be very few. When the last active LEOFF 1 member retires, and when all disabled LEOFF 1 members reach age 60, the disability boards may be discontinued. Until then, they are necessary.

Declining numbers of active members has already resulted in situations that cannot be accommodated under existing disability board membership provisions. Board membership is to include one active or retired police officer, and one active or retired fire fighter. Among these remaining active and retired members in certain jurisdictions there may be no fire fighters, or no police officers. Current disability board membership provisions are not crafted to accommodate these circumstances.

Recent Legislation: Companion bills HB 3114 and SB 6355 were introduced in the 2004 session to deal with LEOFF 1 disability board membership. The bills would have clarified the qualifications of the active or retired fire fighters and active or retired law enforcement officers who are eligible to serve on the county disability board and who are eligible to vote for those board members; these persons must be active or retired from a legislative authority within the county subject to the jurisdiction of that same county's disability board. The bills also required that if there were either no fire fighters or no law enforcement officers eligible to vote, the eligible fire fighters or law enforcement officers would elect a second board member. Neither bill was forwarded from its respective fiscal committee.

Policy Consideration: Each disability board is required to have two LEOFF members. This legislation does not establish any new policies in regards to that membership but merely fine-tunes that policy in light of the declining number of eligible LEOFF 1 voting members. This issue will probably need to be visited again as the number of LEOFF 1 members declines even further.

Fiscal Impact: None

60% Benefit Cap

When first founded, LEOFF 1 had no benefit cap. With the passage of Chapter 120, laws of 1974, members' benefits were capped at 60% of final average salary. Those hired into LEOFF 1 positions on or after February 19, 1974 -- the effective date of the act -- are subject to the 60% cap; those hired prior to that date are not. As of the 2003 valuation, 507 of the 991 remaining active members were subject to the 60% benefit cap.

Of the total 8,054 retirees, 2,344 became members prior to February 19, 1974. Of those, 659 had a benefit that was greater than 60% of their final average salary.

The Public Employees' Retirement System (PERS) plan 1 and the Teachers' Retirement System (TRS) plan 1 both have provisions capping retirement benefits at 60% of average final compensation (AFC).

The plans 2/3, including LEOFF 2, have no benefit cap, but they are age-based plans as opposed to service-based plans. The School Employees' Retirement System (SERS), PERS and TRS 2/3 require members to be age 65 in order to receive an unreduced defined benefit. LEOFF 2 requires members to be age 53 to receive an unreduced benefit compared to age 50 in LEOFF 1.

In addition, all the plans 2/3 use a 60 month period to determine a member's final average salary (LEOFF) or average final compensation (PERS, SERS, TRS) when calculating their retirement allowance. PERS 1 and TRS 1 use a 24 month average, and LEOFF 1 members may use a 12 month average.

Recent Legislation: Two bills were introduced during the last legislative session related to the 60% cap in LEOFF 1. HB 2416 proposed raising the limit to 70% of FAS, and HB 2914 proposed eliminating the cap entirely; both bills received a hearing but neither moved from committee.

Policy Considerations: One of the general policies found in the funding chapter (RCW 41.45) is "Fund, to the extent feasible, benefit increases for all plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service." The average age of remaining active LEOFF 1 members is 54 years, and their average member service is 29.3 years. For a plan that wasn't fully funded, there would be scant time to contribute to a benefit increase for an active membership that is already, on average, retirement eligible. Because LEOFF 1 is in surplus status at this time, any benefit increase would draw on that surplus.

The other policy concern would be leapfrogging. One of the common criticisms of the plan 1 design is the 30 year cap or 60% cap; member's benefits are a maximized at 30 years of service (2% × 30 years of service = 60% of AFC). Were the cap raised or eliminated in the LEOFF 1 plan, PERS 1 and TRS 1 members may request a similar benefit increase which would have a much higher cost.

Fiscal Impact: The fiscal note for HB 2416 stated that the present value of projected benefits would increase by $16 million, and the State contribution rate, when it is projected to resume, would increase by 0.14 percentage points.

The fiscal note for HB 2914 stated that the present value of projected benefits would increase by $19 million and the State contribution rate, when it is projected to resume, would increase by 0.17 percentage points.

Based on forecasts from the 2002 valuation, the LEOFF 1 plan would emerge from its fully funded status in the 2011-2013 biennium. Fiscal notes showed that these proposals would result in the plan emerging from full funding one biennium earlier than projected.

Because of its relatively small surplus, the funding needs of LEOFF 1 are sensitive to short-term market performance. Plan assets and liabilities are tracking very closely. Future forecasts, which will recognize more recent market performance, may show different results.

Contribution Holiday

Because of its fully funded status, employer, member, and state contributions to the LEOFF 1 plan have been suspended. As a result, active members are earning benefits while not making contributions, in essence receiving a 6% pay raise. The state and LEOFF employers are also able to use monies that would have been used for retirement contributions for other purposes. Because projections show the LEOFF 1 plan emerging from full funding in the 2011-2013 biennium, there has been a discussion to resume contributions to prevent that from occurring.

Policy Considerations: Funding policies in Washington State, as outlined in RCW 41.45.010(3), include the goal to "To establish predictable long-term employer contribution rates which will remain a relatively constant proportion of the future state budgets" While the suspension of contributions in LEOFF 1 would appear to be in conflict with that policy, that policy is difficult to apply in a fully funded closed plan with a small and declining number of active members. As the obligation to amortize the LEOFF 1 unfunded liability was fulfilled, and as the plan reached fully funded status, the state established a new funding policy to acknowledge that funded status.

Defined benefit retirement plans are funded to support the benefit provisions within the plans. Ideally the funded ratio of such plans would always be at 100%, where assets match liabilities. Funding policies are formulated to reach that goal. It is not the goal of existing funding policy for any Washington State retirement system or plan to have surplus funding on a long-term basis. That would mean that the actuarial assumptions were too conservative relative to the experience of the plan. In turn, that would mean members and employers were paying too much for the existing benefits.

Stakeholder Input

Senator Bob Morton
7th Legislative District
See attached correspondence

Richard Warbrouck
President, Retired Fire Fighters of Washington
See attached correspondence

Appendix A

Law Enforcement Officers' and Fire Fighters' plan 1 Provisions

Design

Defined benefit retirement, disability and medical plan.

Membership

Mandatory for full-time, fully compensated:

(1) Law enforcement officers (i.e., county sheriffs, deputy sheriffs who have passed a civil service examination, city police officers, town or deputy marshals, or certain directors of public safety);
(2) Fire fighters (i.e., persons who have successfully passed a civil service examination, if required, for fire fighter or supervisory fire fighter); and
(3) Specified commissioned officers enforcing the criminal laws of the state who were employed on or before September 30, 1977.

Eligibility for membership generally requires meeting certain minimum medical, health, and age standards. Exclusions from the age standard are granted for police chiefs, fire chiefs, sheriffs, and certain directors of public safety.

Portability

Former LEOFF 1 members who become members of PERS, TRS or WSP may transfer their prior LEOFF 1 service to their current retirement system. Upon transfer, all ties with LEOFF 1 are severed, including eligibility for post-retirement medical benefits.

Vesting

Established upon completion of five years of credited service.

Terminated, Vested Benefit

(Terminates, but maintains membership by not withdrawing contributions)

At age-50, a terminated, vested member may receive a service retirement allowance.

If a terminated, vested member dies prior to attaining age-50 and with less than 20 years of service, a refund of contributions and accrued interest is made to the surviving spouse, designated beneficiary or personal representative of the estate.

If a terminated, vested member dies with at least 20 years of service, the benefit is as though the member had died in service.

Credited Service

(1) A service credit month is earned for each calendar month of employment for which compensation is paid for 70 or more hours.
(2) Service credit is also earned for:

    (a) Periods of suspension up to 30 days; and
    (b) Periods of disability leave if the member returns to duty.

Service Credit for Leave of Absence

A member who is on paid leave of absence will receive service credit for such leave. This applies to a member, as authorized by a collective bargaining agreement, who serves as an elected official of a labor organization.

Military Service Credit

Members whose service is interrupted receive up to five years of military service.

Withdrawal of Employee Contributions

Upon termination of employment for reasons other than retirement or disability a member may sever relationship with the system by withdrawing his or her contributions, plus accrued interest thereon.

Restoration/Purchase of Service Credit

Contributions restored within 5 years of re-entry, member repays the withdrawn amount.

Contributions restored after 5 years, member pays full actuarial value of restored service.

Compensation

The basic monthly rate of salary or wages, including longevity pay but not including overtime earnings or special salary or wages. (Defined as basic salary.)

Computation of Final Average Salary

The basic salary attached to the position or rank at retirement if held for at least 12 months. If not, it is the average of the greatest basic salaries paid over 24 consecutive credited months in the last 10 credit years.

Eligibility for Normal Retirement

Five years of service and attainment of age-50.

Service Retirement Allowance

(1) 1% of final average salary (FAS) for each year if the member has at least five years of service, but less than ten years of service.
(2) 1.5% of FAS for each service credit year if the member has at least ten, but less than 20 years of service.
(3) 2% of FAS for each year of service if the member has 20 or more years of service.
(4) The benefit shall not exceed 60% of FAS if the member was first employed on or after February 19, 1974.

Cost-of-Living Adjustments

Each April 1st, after one year of retirement, an annual adjustment is made to the benefit based upon the percentage difference between the CPI-Seattle, for the previous year and the CPI-Seattle, for the year prior to retirement.

Retirement for Disability

Duty/Non-Duty: With the approval of the local disability board and the Director, DRS, a member who has incurred a disability rendering him or her unable to continue service in the position or rank held at that time, shall receive an allowance of 50% of FAS, plus an additional five percent of FAS for each dependent child, not to exceed a maximum benefit of 60% of FAS.

Disability Leave

As ordered by the local disability board, the employer provides up to six months of leave at full pay.

Survivor Benefits - Active Members

(1) The surviving spouse receives an allowance equal to what the member would have received at age-50 (50% of AFC), plus five percent additional for each child, with the maximum benefit not to exceed 60%.

    If there is no surviving spouse but there are children, the first surviving child receives an allowance equal to 30% of FAS, and an additional 10% for each additional child to a maximum of 60%. The payments will be prorated among them.

(2) If member dies in service or from injuries sustained in the commission of duties - survivors receive a $150,000 lump sum payment.

Survivor Benefits - Retired Members

The surviving spouse, if married one year to the member prior to retirement, receives the same benefit as did the member, including the allowance for children. If there is no surviving spouse but there are children, the first surviving child receives an allowance equal to 30% of FAS, and an additional 10% for each additional child to a maximum of 60%. The payments will be prorated among them.

Medical Services

Necessary medical services are provided by the employer to active and retired members.

Post-Retirement Employment

Members may work for any non-LEOFF employer without a reduction of benefits.

Member Contributions

(1) 6% of compensation (i.e., basic salary).
(2) Contributions are required only when the plan's most recent actuarial valuation indicates an unfunded liability exists.
(3) Employee contributions may be "picked-up" for all employees of an employer under Section 414(h) of the IRS Code.

Employer Contributions

(1) 6% of compensation (i.e, basic salary).
(2) Contributions are required only when the plan's most recent valuation indicates an unfunded liability exists.
(3) The present value of the total estimated cost of all benefits attributed to excess compensation.

Excess compensation includes any payment on which the calculation of the retirement allowance is made, except basic salary.

State Contributions

The required costs of the system in excess of those met by the contributions of the employee and employer. This includes the amortization of the unfunded liability by June 30, 2024.

Appendix B

LEOFF 1 Statement of Changes in Plan Net Assets

For Years Ending June 30th

Fiscal year	Market Assets * (end of year)	Contributions: Employee	Employer	State	Total	State contribution as a % of salary	Fiscal year disbursements
1970	$10,783,000	------	------	------	------	------	
1971	$19,929,181	$4,285,260	$4,285,260	$0	$8,570,520	------	$1,634,650
1972	$33,829,038	$4,907,850	$4,907,850	$0	$9,815,700	------	$4,209,500
1973	$43,336,391	$5,382,510	$5,382,510	$0	$10,765,020	------	$6,592,500
1974	$57,914,979	$5,916,300	$5,916,300	$0	$11,832,600	------	$9,180,750
1975	$77,564,804	$6,509,220	$6,509,220	$0	$13,018,440	------	$11,974,250
1976	$109,980,394	$7,132,023	$7,132,023	$39,810,356	$54,074,402	33.5%	$14,921,451
1977	$161,894,099	$7,773,699	$7,773,699	$39,689,644	$55,237,042	30.6%	$18,022,354
1978	$226,227,684	$8,396,502	$8,565,528	$62,668,321	$79,630,351	44.8%	$21,396,921
1979	$295,568,391	$8,738,973	$8,778,495	$62,478,300	$79,995,768	42.9%	$26,153,565
1980	$393,207,886	$9,241,014	$9,321,517	$81,694,026	$100,256,557	53.0%	$32,660,419
1981	$496,916,357	$9,593,000	$9,585,000	$81,166,000	$100,344,000	50.8%	$40,441,000
1982	$522,976,635	$10,400,633	$10,391,118	$56,729,347	$77,521,098	32.7%	$50,393,815
1983	$732,684,842	$10,561,209	$10,530,515	$178,057,262	$199,148,986	101.2%	$58,947,576
1984	$886,463,945	$10,791,349	$10,734,238	$128,749,878	$150,275,465	71.6%	$65,127,565
1985	$1,034,190,679	$10,926,267	$10,857,000	$93,146,449	$114,929,716	51.2%	$69,279,352
1986	$1,207,993,114	$11,004,730	$10,893,557	$139,122,916	$161,021,203	75.9%	$74,681,582
1987	$1,789,837,346	$11,432,053	$11,365,919	$138,443,471	$161,241,443	72.7%	$79,979,069
1988	$1,843,529,858	$11,709,770	$11,676,523	$52,522,735	$75,909,027	26.9%	$84,536,118
1989	$2,055,809,053	$11,987,486	$11,987,126	$46,249,232	$70,223,844	23.1%	$90,927,845
1990	$2,188,850,541	$10,675,028	$10,611,947	$56,787,848	$78,074,823	31.9%	$98,444,768
1991	$2,336,825,596	$10,931,945	$10,763,500	$54,403,718	$76,099,163	29.9%	$109,091,107
1992	$2,494,326,109	$10,436,729	$10,427,591	$70,333,321	$91,197,641	40.4%	$122,097,650
1993	$2,755,829,928	$10,465,916	$10,393,893	$54,664,315	$75,524,124	31.3%	$134,561,317
1994	$2,748,629,232	$9,801,400	$9,794,758	$61,289,136	$80,885,294	37.5%	$146,215,486
1995	$3,112,599,913	$9,467,354	$9,484,269	$65,468,874	$84,420,497	41.5%	$157,754,206
1996	$3,575,812,041	$8,923,558	$8,935,270	$70,913,900	$88,772,728	47.7%	$170,546,109
1997	$4,170,300,827	$8,184,875	$8,190,404	$66,746,617	$83,121,896	48.9%	$184,119,302
1998	$4,715,767,752	$8,341,376	$7,566,542	$50,358,280	$66,266,198	36.2%	$200,532,887
1999	$5,113,605,449	$7,165,640	$7,195,563	$48,793,478	$63,154,681	40.9%	$216,688,665
2000	$5,550,458,331	$6,323,611	$6,302,777	$0	$12,626,388	0.0%	$228,241,279
		$267,407,280	$266,259,912	$1,800,287,424	$2,333,954,615	40.4%	$2,529,353,058
		11.5%	11.4%	77.1%			

Source: Department of Retirement Slystems, Comprehensive Annual Financial Reports (1976 - 2000), Washington Law Enforcement Officers' and Firefighters' Retirement System Actuarial Valuations (1970-1975)

Note: Midpoint averaging used to estimate missing data for asset accounts, disbursements, and salaries used in turn to estimate employee and employer contributions.

* Book value assets prior to 1981.

Appendix C

LEOFF 1 Survivor Option Factors

Member younger than beneficiary				Member older than beneficiary			
Age Difference	**Option 2 100%**	**Option 3 50%**	**Option 4 66 2/3 %**	**Age Difference**	**Option 2 100%**	**Option 3 50%**	**Option 4 66 2/3%**
-20	0.958	0.978	0.971	**0**	0.878	0.935	0.915
-19	0.955	0.977	0.969	**1**	0.873	0.932	0.912
-18	0.952	0.975	0.967	**2**	0.868	0.930	0.908
-17	0.949	0.974	0.965	**3**	0.864	0.927	0.905
-16	0.946	0.972	0.963	**4**	0.859	0.924	0.901
-15	0.942	0.970	0.961	**5**	0.854	0.921	0.898
-14	0.939	0.969	0.959	**6**	0.849	0.918	0.894
-13	0.935	0.967	0.956	**7**	0.844	0.915	0.890
-12	0.932	0.965	0.953	**8**	0.839	0.913	0.887
-11	0.928	0.963	0.951	**9**	0.835	0.910	0.883
-10	0.924	0.960	0.948	**10**	0.830	0.907	0.880
-9	0.920	0.958	0.945	**11**	0.826	0.905	0.877
-8	0.916	0.956	0.942	**12**	0.821	0.902	0.873
-7	0.911	0.954	0.939	**13**	0.817	0.899	0.870
-6	0.907	0.951	0.936	**14**	0.813	0.897	0.867
-5	0.902	0.949	0.933	**15**	0.809	0.894	0.864
-4	0.898	0.946	0.929	**16**	0.805	0.892	0.861
-3	0.893	0.943	0.926	**17**	0.801	0.889	0.858
-2	0.888	0.941	0.922	**18**	0.797	0.887	0.855
-1	0.883	0.938	0.919	**19**	0.793	0.885	0.852
				20	0.790	0.882	0.849
				21	0.786	0.880	0.847
				22	0.783	0.878	0.844
				23	0.780	0.876	0.841
				24	0.777	0.874	0.839
				25	0.774	0.872	0.837
				26	0.771	0.871	0.834
				27	0.768	0.869	0.832
				28	0.765	0.867	0.830
				29	0.763	0.865	0.828
				30	0.760	0.864	0.826
				31	0.758	0.862	0.824
				32	0.756	0.861	0.823
				33	0.753	0.859	0.821
				34	0.751	0.858	0.819
				35	0.749	0.857	0.818
				36	0.747	0.855	0.816
				37	0.745	0.854	0.815
				38	0.744	0.853	0.813
				39	0.742	0.852	0.812
				40	0.740	0.851	0.810

Age difference: Member age minus beneficiary age

[Statutory Authority: RCW 41.50.050(5), 41.26.162, 41.26.164, chapter 41.45 RCW. 03-12-014, § 415-02-380, filed 5/27/03, effective 7/1/03. Statutory Authority: RCW 41.50.050(5) and chapter 41.45 RCW. 03-02-087, § 415-02-380, filed 12/31/02, effective 2/1/03; 02-18-048, § 415-02-380, filed 8/28/02, effective 9/1/02.]

Appendix D

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/20/04**	**HB 2416**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by increasing the maximum service retirement allowance of those who became members on or after February 19, 1974 to 70% of their final average salary.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, the maximum service retirement allowance for a member of LEOFF 1 who became a member on or after February 19, 1974 is 60% of their final average salary.

MEMBERS IMPACTED:

We estimate that 568 active members hired on or after 2/19/1974 out of the total 1,147 active members of this plan could be affected by this bill. Additional members could be affected if they returned to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years, but less than 35, would result in an increase of about $1,400 in annual pension payments per person (based on a current annual salary of $69,667).

ASSUMPTIONS:

We have assumed that future disabled retirees with at least 30 years of service will elect the proposed service retirement benefit (with the 70% of pay cap) in lieu of the 50% of the pay tax-free disability benefit. The impact of this assumption change, as it relates to the proposed service retirement benefit, is reflected in the estimated cost of this proposal. This proposed benefit change may alter future retirement behavior in the plan and, as a result, have an additional impact on the plan's liability. This cost, if it indeed materializes, would be reflected in future actuarial valuations after retirement rates are adjusted for any change in actual retirement experience.

FISCAL IMPACT:

Description:

There is no immediate fiscal impact while the plan remains in a surplus or fully funded position. However, the plan is projected to resume funding earlier and at a higher rate as a result of the proposed benefit increase.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System:

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,338	$16	$4,354
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(757)	$16	$(741)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(830)	$13	$(817)

Increase in Contribution Rates:
(Effective 9/01/2004)

Employee	0.0%
Employer State	0.0%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs (in Millions):

2004-2005	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2005-2007	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2004-2029	
State:	
General Fund	$53.7
Non-General Fund	0.0
Total State	**$53.7**
Local Government	$1.6
Total Employer	$55.3
Total Employee	$1.6

State Actuary's Comments:

Because the plan is currently in a surplus position, we have projected the impact this bill might have on the plan's future funding status. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

Based on this projection, the plan is expected to emerge from its surplus position in the 2011-2013 biennium before this plan change. After the plan change, the plan is expected to emerge from its surplus position in 2009-2011. This would result in 6% employee and employer contributions for Plan 1 members resuming two years earlier. The state's normal cost contribution for Plan 1 members would also resume 2 years earlier, but more significantly the state's UAAL contribution over all LEOFF members pay would resume earlier and at a rate that is approximately .14% higher.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in this fiscal note include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/23/04**	**HB 2914**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974 to 60% of their final average salary.

Effective Date: 90 days after session

CURRENT SITUATION:

Currently, the maximum retirement allowance for a member of LEOFF 1 who became a member on or after February 19, 1974 is 60% of their final average salary. Those who became members before February 19, 1974 have no such limit on their retirement allowance.

MEMBERS IMPACTED:

We estimate that 568 active members hired on or after 2/19/1974 out of the total 1,147 active members of this plan could be affected by this bill. Additional members could be affected if they returned to work and earn over 30 years of service.

Each year of additional service credit beyond 30 years would result in an increase of about $1,400 in annual pension payments per person (based on a current annual salary of $69,667).

ASSUMPTIONS:

We have assumed that future disabled retirees with at least 30 years of service will elect the proposed service retirement benefit in lieu of the 50% of the pay tax-free disability benefit. The impact of this assumption change, as it relates to the proposed service retirement benefit, is reflected in the estimated cost of this proposal. This proposed benefit change may alter future retirement behavior in the plan and, as a result, have an additional impact on the plan's liability. This cost, if it indeed materializes, would be reflected in future actuarial valuations after retirement rates are adjusted for any change in actual retirement experience.

FISCAL IMPACT:

Description:

There is no immediate fiscal impact while the plan remains in a surplus or fully funded position. However, the plan is projected to resume funding earlier and at a higher rate as a result of the proposed benefit increase.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Fire Fighters' Retirement System:

(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$4,338	$19	$4,357
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$(757)	$19	$(738)
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$(830)	$14	$(816)

Increase in Contribution Rates:	**Prior to 7/1/2009**	**2009-11 Biennium**	**After 6/30/2011***
Employee	0.0%	6.0%	0.0%
Employer	0.0%	6.0%	0.0%
State	0.0%	3.59%	0.17%

**We estimate that 6% employee and employer contributions plus the state's portion of the plan's normal cost will resume two years earlier as a result of this proposed benefit increase. The state's contribution to the plan's projected UAAL would also resume two years earlier and at a rate that is 0.17% higher.*

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Costs **(in Millions)**:

2004-2005	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2005-2007	
State:	
General Fund	$0.0
Non-General Fund	0.0
Total State	**$0.0**
Local Government	$0.0
Total Employer	$0.0
Total Employee	$0.0
2004-2029	
State:	
General Fund	$63.8
Non-General Fund	0.0
Total State	**$63.8**
Local Government	$1.6
Total Employer	$65.4
Total Employee	$1.6

State Actuary's Comments:

Because the plan is currently in a surplus position, we have projected the impact this bill might have on the plan's future funding status. This projection reflects the future recognition of prior asset gains and losses and the impact of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

Based on this projection, the plan is expected to emerge from its surplus position in the 2011-2013 biennium before this plan change. After the plan change, the plan is expected to emerge from its surplus position in 2009-2011. This would result in 6% employee and employer contributions for Plan 1 members resuming two years earlier. The state's normal cost contribution for Plan 1 members would also resume two years earlier, but more significantly the state's UAAL contribution over all LEOFF members pay would resume earlier and at a rate that is approximately .17% higher.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report or in this fiscal note include the following: None.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2004 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**1/28/04**	**HB 3114/SB 6355**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) Plan 1. The bill addresses jurisdiction, disability board membership and eligibility to vote for employee representatives on the board. The proposed legislation provides that the jurisdiction of the county disability boards applies to all members employed by or retired from an employer within the county and not employed by a city in which a disability board is established. It also clarifies that to serve on the county disability board, a fire fighter or law enforcement officer must be employed by or retired from an employer within the county and not be employed by or retired from a city in which a disability board is established. Those voting for employee representatives on the county disability board must be employed by or retired from an employer within the county and not employed by or retired from a city in which a disability board is established. Finally, the bill addresses the election of the firefighter and law enforcement officer positions on the board and adds the following new provisions: a) if there are no firefighters eligible to vote, a second eligible employee representative shall be elected by the law enforcement officers eligible to vote, and b) if there are no law enforcement officers eligible to vote, a second employee representative shall be elected by the fire fighters eligible to vote.

Effective Date: Immediately upon passage.

CURRENT SITUATION:

Currently the county disability board's jurisdiction extends to "all members residing in the county" and not employed by a city in which a disability board is established. The limitation that the members be employed by or retired from an employer within the county is not included in the current law. Similarly, regarding eligibility to serve on the disability board, the current law requires mere residence in the county for the firefighter and police officer representatives, whereas the new law requires that the employee representatives be "employed by or retired from an employer within the county" in lieu of the residency requirement, and that they not be "employed by or retired from a city in which a disability board is established." With respect to eligibility to vote, the current law allows the following to vote: all fire fighters and law enforcement officers employed or retired from the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of the board. The new law adds the requirement that the voting member be employed by or retired from an employer within the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of "that" board.

FISCAL IMPACT:

None.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/05/04**	**HB 3173**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1. It amends the plan provision relating to survivor benefits under RCW 41.26.164, which provides an optional reduced retirement allowance with survivor benefits to spouses that are ineligible for survivor benefits under other plan provisions. The bill changes one of the criteria for allowing a member to choose this retirement option. Under this legislation, the member could select the option as long as there is some portion of his or her retirement benefit that is not subject to a property division pursuant to a domestic relations order. (Currently, any division would defeat the member's ability to select this option.) Other provisions of the bill include a one-year extension of the deadline for promulgating rules to allow members to chose this option, and a "clean-up" provision that changes "beneficiaries" to "beneficiary's" (based on the assumption that the member has only one spouse at any given point in time).

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently a member desiring to choose this option shall "have the retirement allowance payable to the retiree not subject to periodic payments pursuant to a property division obligation as provided for in RCW 41.50.670." This language is broad enough to suggest that the presence of any such division would defeat the member's ability to choose this option. With the new language, the member could choose this option so long as there is a portion of the retirement allowance that is not subject to division.

MEMBERS IMPACTED:

We have no information on the number of members whose pensions are partially divided, who have re-married and who would choose to take an actuarially reduced benefit on the remaining portion. For those who do make this election, their benefit would be actuarially reduced to reflect the cost of the survivor benefit provided by the election. For example, the option factor is .935 for a 50% Joint and Survivor option where the spouse is the same age as the member, thereby reducing a single-life benefit of $1,000 per month to $935 per month.

FISCAL IMPACT:

None. The member pays the full cost of the survivor benefit via an actuarial reduction of his or her retirement allowance.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/05/04**	**HB 3174**

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by establishing the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 medical account within the office of the State Treasurer. Expenditures from this account could be used only for the catastrophic medical expenses of employers for the benefit of LEOFF 1 members **or beneficiaries**. The account would be funded by contributions from members and employers. The member contributions would be 6% of payroll less any member contributions to the retirement fund. The employer contributions would be 6% of payroll less any employer contributions to the retirement fund.

The Director of the Department of Retirement Systems is to establish the rules for receipt of distributions from this account.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, necessary medical services to LEOFF 1 retirees are provided by each member's employer. This bill provides catastrophic medical expense coverage to beneficiaries that has not previously been available.

Because of the funding status of LEOFF 1, no member, employer, or state contributions are currently being paid into the LEOFF 1 fund. As a result, initial member and employer contributions to the proposed LEOFF 1 medical account would each be 6% of pay.

Were the funding status of LEOFF 1 to change and contributions again required, members and employers would each contribute the statutorily required 6% of pay, and no contributions would go to the medical account.

MEMBERS IMPACTED:

There is no impact on member pension benefits or contributions. The 1,147 active members would be impacted by having to make contributions to a medical account when the required member contribution rate to the pension plan is less than 6%.

When the market value of LEOFF 1 assets are projected using actual investment returns through 8/30/03 and an assumed 8% rate of return thereafter, the plan remains in a surplus position until the 9/30/2009 valuation date. An unfunded liability would then emerge once unrecognized prior asset losses are fully reflected in the projected actuarial value of assets. Under this scenario, members would contribute 6% of pay to the medical account from 7/1/2004 through 6/30/2011: $3.1, $2.5, $2.0, $1.6, $1.2, $0.9 and $0.7 million for a total of $12 million over the period. Employers would contribute the same amount to the medical account. After 7/1/2011, 6% employee and employer contributions are projected to resume for the pension plan.

FISCAL IMPACT:

There is no impact on the pension plan.

State Actuary's Comments:

There are very limited opportunities to prefund medical benefits under a tax-qualified trust. It is unclear whether this proposed program would qualify under current federal tax law.

Olympia Office:
115D Irv Newhouse Building
PO Box 40407
Olympia, WA 98504-0407
Phone: (360) 786-7612
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E-mail: morton_bo@leg.wa.gov

Washington State Senate

Senator Bob Morton
7th Legislative District

RECEIVED
MAY 21 2004
Office of
The State Actuary

District Office:
3278 Pierre Lake Road
Kettle Falls, WA 99141
Phone: (509) 684-5132

May 19, 2004

Dear Members of the Select Committee on Pension Policy:

During this past session, I was contacted by a former constituent, Sandra White, who is in dire financial circumstances because of the application of a survivor benefit statute. I would like to request that the Select Committee on Pension Policy ("SCPP") consider legislation that would remedy Ms. White's unfortunate plight.

Enclosed is Ms. White's correspondence, and following is a summary of her issue in the hope that the SCPP will find this useful in its consideration of this matter:

<u>Issue</u>

Ms. White was married to a LEOFF 1 member for 41 years. They divorced in 2000, some four years after he retired. The court order entitled her to half of his retirement benefit. Mr. White died one month after the divorce, thereby terminating Ms. White's retirement allowance. As a homemaker for all the years of their marriage, Ms. White has little money now.

<u>2002 Legislative Change: Survivor Benefit for Ex-Spouses of LEOFF 1 Members</u>

In the 2002 session, the legislature passed ESB 6380 which, among other things, granted a survivor benefit to ex-spouses of LEOFF 1 members, provided certain criteria were met.

The criteria included: (a) the member must have had 30 years of service, (b) the parties must have been married at least 25 years, and (c) the parties must have entered into a court-approved property settlement agreement awarding a portion of the member's benefits to the ex-spouse after June 13, 2002.

Under the bill as passed, Ms. White did not qualify for a survivor benefit. Her husband had 29 years & 10 months of service, not 30 years. And the court order entitling her to half of his retirement was entered in 2000, not after June 13, 2002.

Options to Solve Ms. White's Situation

There are several ways in which Ms. White's situation could be remedied and a survivor benefit could be obtained. Most notably, SB 6380 as it passed the Senate in 2002 would have solved Ms. White's problem, as it did not have the thirty year member requirement nor the time restriction on when the court order was entered into. Had that version not been subsequently amended, Ms. White would be receiving benefits now. I would ask the committee to consider this, or another alternative, as a solution to Ms. White's problem.

Thank you for your consideration.

Cordially yours,

Bob

BOB MORTON
State Senator

Enclosure

cc: Matthew Smith

Retired Firefighters of Washington
15310 163rd Ct. SE
Renton, WA 98058-8122
425-226-3793
rffow@attbi.com

Richard Warbrouck
President

Bob Burtch
Secretary

October 5, 2004

The Honorable Karen Fraser
Chair, Select Committee on Pension Policy
PO Box 40422
Olympia, WA 98504-0422

Dear Senator Fraser,

I would like to draw your attention to a letter I forwarded to Senator Winsley dated January 12, 2004 regarding RCW 41.26.110.(B).

Senator Winsley was kind enough to introduce SB 6355 in the 2004 session and Representative Helen Sommers introduced HB 3114 in the House. The two bills were intended to correct the existing language and create a new provision to allow two law enforcement officers to serve on a county disability board when there are no firefighters eligible to serve. RCW 41.26.110 (B) states "Each county shall establish a disability board having jurisdiction over all members residing in the county." This is incorrect. The members don't have to reside in the county. They have to be employed by an employer within the county.

RCW 41.26.110 (B) presently states "An active or retired firefighter or law enforcement officer to be eligible to serve on the board must be employed by or retired from the county." This is incorrect. Any active or retired firefighter or law enforcement officer who is employed or was previously employed by an employer or agency under the jurisdiction of the board is eligible to serve. Only those active and retired LEOFF 1 firefighters and law enforcement officers who are under the jurisdiction of the board are eligible to vote in disability board elections.

We also want to correct a new problem. Island County for example, has no LEOFF 1 active or retired firefighters under the jurisdiction of the board so they have no active or retired firefighters members eligible to elect a representative to the board. This eliminates the fire representative on the board, thereby reducing the number of board members by one creating an imbalance on the board. Our bill will allow the law enforcement officers to elect a second law enforcement officer representative to the board in these situations.

Both bills were passed out of their assigned committee and sent to the Rules Committee in each chamber. They were up for Second Reading but failed to get voted out of Rules by the cut-off. I respectfully request that the Select Committee consider these two bills and include them in the committee's legislative package.

I have also included a letter dated May 17, 2004 addressed to Senator Winsley, Chair, Select Committee on Pension Policy in where I requested to have SB 6355 and HB 3114 placed on the Select Committee's interim agenda.

I also referred to the statement by Matt Smith, the State Actuary, at the April 20, 2004 meeting that the LEOFF 1 Fund could have an unfunded liability as early as 2008. If this is correct I would request the Committee to reinstate the LEOFF 1 contributions. I would question the wisdom of continuing the present contribution holiday. To continue the contribution holiday would only create an escalating problem for a future legislature.

Due to the fluctuating value of the LEOFF 1 Fund, I would suggest that the Office of the State Actuary give a complete report to the Committee regarding the LEOFF 1 Fund. The LEOFF 1 Fund members would like, for once, to understand the value, the liability, the assumption and the computations used in determining these values.

If there is a surplus of $757,000,00. as previously reported, I would like the Committee to evaluate the need for the actuarially reduced pension for the new Survivor Benefit as created in ESB 6380.

I request that the Committee consider extending the new Survivor Benefit option as created in ESB 6380 to those members who are only receiving a partial pension. Currently, any member who is receiving less than a full pension due to a personal property settlement in a divorce decree is not eligible to select this option. Those members who would become eligible would of course have their reduced pensions further reduced by the same percentage as those members who are receiving a full pension and exercised this option. The benefit would be based on the member's current pension and paid for by the actuarial reduction.

Thank you for your consideration.

Sincerely,

Richard C. Warbrouck

Retired Firefighters of Washington
15310 163rd Ct. SE
Renton, WA 98058-8122
425-226-3793
rffow@attbi.com

Richard Warbrouck
President

Bob Burtch
Secretary

January 12, 2004

Senator Shirley Winsley
1109 Garden Circle
Fircrest, WA 98466-6218

Dear Senator Winsley,

I want to remind you of the current discrepancies in RCW 41.26.110 (B), LEOFF 1 City and County Disability Boards and want to request your assistance in making some housekeeping amendments to RCW 41.26.110. RCW 41.26.110 (B) states that "Each county shall establish a disability board having jurisdiction over all members residing in the county." This is incorrect. The members don't have to reside in the county. They have to be employed by an employer within the county.

RCW 41.26.110 (B) presently states that "An active or retired firefighter or law enforcement officer to be eligible to serve on the board must be employed by or retired from the county." This is incorrect. Any active or retired firefighter or law enforcement officer who is employed by an employer or agency under the jurisdiction of the board is eligible to serve. Only those active and retired LEOFF 1 firefighters and law enforcement officers who are under the jurisdiction of the board are eligible to vote in these disability board elections.

I have attached a copy of an e-mail from Jan L. Ford, the Secretary of the Island County Disability Board. Jan explains that the Island County Board has no LEOFF 1 active or retired firefighters under the jurisdiction of the board so they have no active or retired firefighter members eligible to elect a representative to the board. This eliminates the fire representative on the board, thereby reducing the number of board members by one which creates an imbalance on the board. I suggested in a letter to the Select Committee on Public Pensions that in these situations the law enforcement officers should elect a second law enforcement officer representative to the board.

Representative Steve Conway, Chair of the Select Pension Committee, informed me that the Select Committee did not have the time to advertise and schedule a Public Hearing regarding this issue and suggested that I have a bill introduced. I did discuss this with Eric Sund as you suggested. Eric was very helpful in assisting me with the Code Reviser.

The emergency designation would be appropriate on this amendment because as of December 31, 2003 the firefighter representative is no longer eligible to serve on the board.

I will contact your office to be advised of your decision and to ascertain if you are in need of any additional information.

Thank you for your consideration.

Respectfully,

Richard C. Warbrouck

JUNO
-mail on the Web

Print Message | Close

From	:	"LEOFF1.Net" <gtaylor@leoff1.net>
To	:	"Jan Ford" <JanF@co.island.wa.us> 1 360 679-7353
Cc	:	"Richard Warbrouck" <mwarbrouck@juno.com>
Subject	:	RE: SB 5090
Date	:	Sat. 18 Oct 2003 14:40:19 -0700

Jan,

I don't know if I got back to you on this as I have been out of town on vacation.

This was a screw up in the legislature. Everybody is aware of the problem but nothing can be done to fix it until the legislature resumes.

You might contact Dick Warbrouck, the President of the Retired Fire Fighters of Washington. I know he is tracking this issue. His email address is: mwarbrouck@juno.com

Jerry Taylor
aylor@leoff1.net

-----Original Message-----
From: Jan Ford [mailto:JanF@co.island.wa.us]
Sent: Monday, September 22, 2003 3:34 PM
To: gtaylor@leoff1.net
Subject: SB 5090

Hello: I am the secretary to the Island County LEOFF I Disability Board. Very recently we learned of the effect of SB 5090 passed by the 2003 legislature that changed RCW41.26.110 affecting who can vote for representatives on the local disability boards. The passage of this legislation has effectively eliminated our fire fighter representative position on our board as we have no LEOFF I fire fighters in Island County, and therefore, no one to vote.

Are you familiar with the background of this legislation? Have you heard from other counties/boards in the same position?

Thanks..

Jan L. Ford

Island County Commissioners Office

P. O. Box 5000, Coupeville, WA 98239

Phone: (360) 679-7353

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Richard Warbrouck
President

Bob Burtch
Secretary

May 17, 2004

The Honorable Shirley Winsley
Chair, Select Committee on Pension Policy
PO Box 40428
Olympia, WA 98504-0428

The Honorable Steve Conway
Vice Chair, Select Committee on Pension Policy
PO Box 40600
Olympia, WA 98504-0600

Mr. Matthew Smith, State Actuary
Office of the State Actuary
PO Box 40814
Olympia, WA 98504-0914

Dear Senator Winsley, Representative Conway and Mr. Smith:

I forwarded a letter and addressed the Committee at the April 20, 2004 meeting requesting that SB 6355 and HB 314, the Companion Bill be placed on the agenda for consideration. I also request that the Committee evaluate the comment made by the State Actuary at the April 20th meeting regarding the LEOFF 1 Fund. He suggested that the fund may develop an unfounded liability as early as 2008 or 2011. If he is correct, I would question the wisdom of continuing the present contribution holiday. To continue, the contribution holiday would only create an escalating problem for a future legislature.

During the 2004 interim I am requesting that the Office of the State Actuary give a complete report to the Committee regarding the LEOFF 1 Fund. The members would like, for once, to understand the value, the liability, the assumptions and the computations used in determining these values.

In addition, we are requesting that the following issues be placed on the agenda for the 2004 interim meetings. Some of these issues have been mentioned in the past, however they are very important to the members and worthy of a complete analysis.

- Establishing a medical fund. This would reduce the liability to the employers for the payment of medical expenses. We would establish a 6% contribution for the member and for the employer. This contribution would not be associated with the former pension contributions, so as not to violate any IRS rules.

- Survivor Benefit:

  A) To evaluate the need for the actuarially reduced pension for the new survivor benefit for LEOFF 1 members.
  B) Extending the new survivor benefit option to those members who are only receiving a partial pension. This option is not available to these members at the present time.

This would not require a fiscal note as the benefit would be based on the current pension and paid for by an actuarial reduction.

Your assistance in placing these issues on the agenda would certainly be appreciated.

Sincerely,

R.C. Warbrouck

Richard C. Warbrouck